

# COLLEGE AFFORDABILITY: THEORY AND PRACTICE

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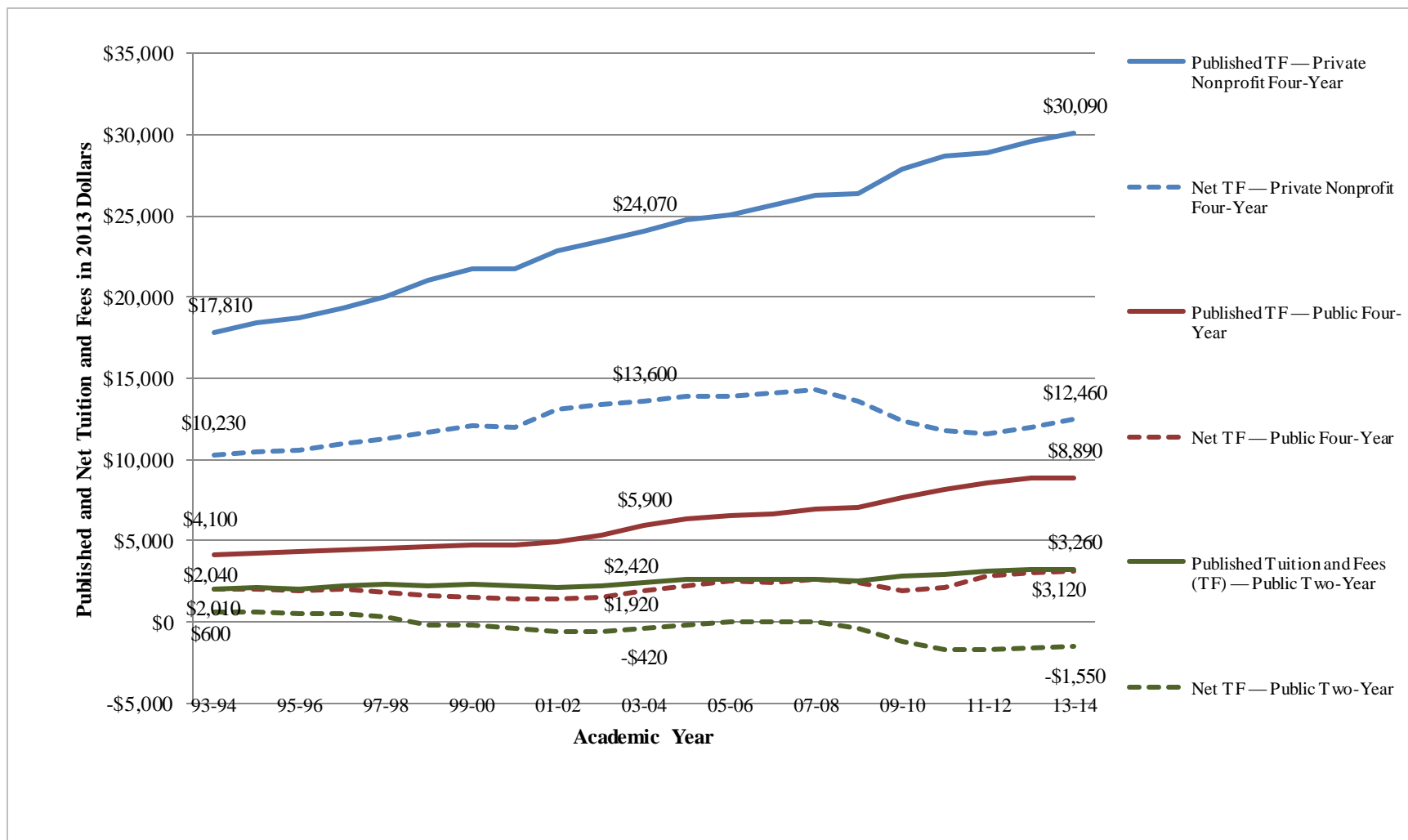
# The usual focus

- How fast is college tuition rising?
- What is the total cost of attendance for a year of college?
- How much much discretionary income do people have?
  
- The problem: not enough money in people's pockets
- The solution: increase student aid (or cut prices)

# The price is more complicated

- Choice of institution / program
- Sticker price vs. net price
- Tuition and fees, books, living costs
- Foregone wages
- One year / time to degree

# Published and net tuition & fees in 2013 dollars, by sector, 1993-94 to 2013-14



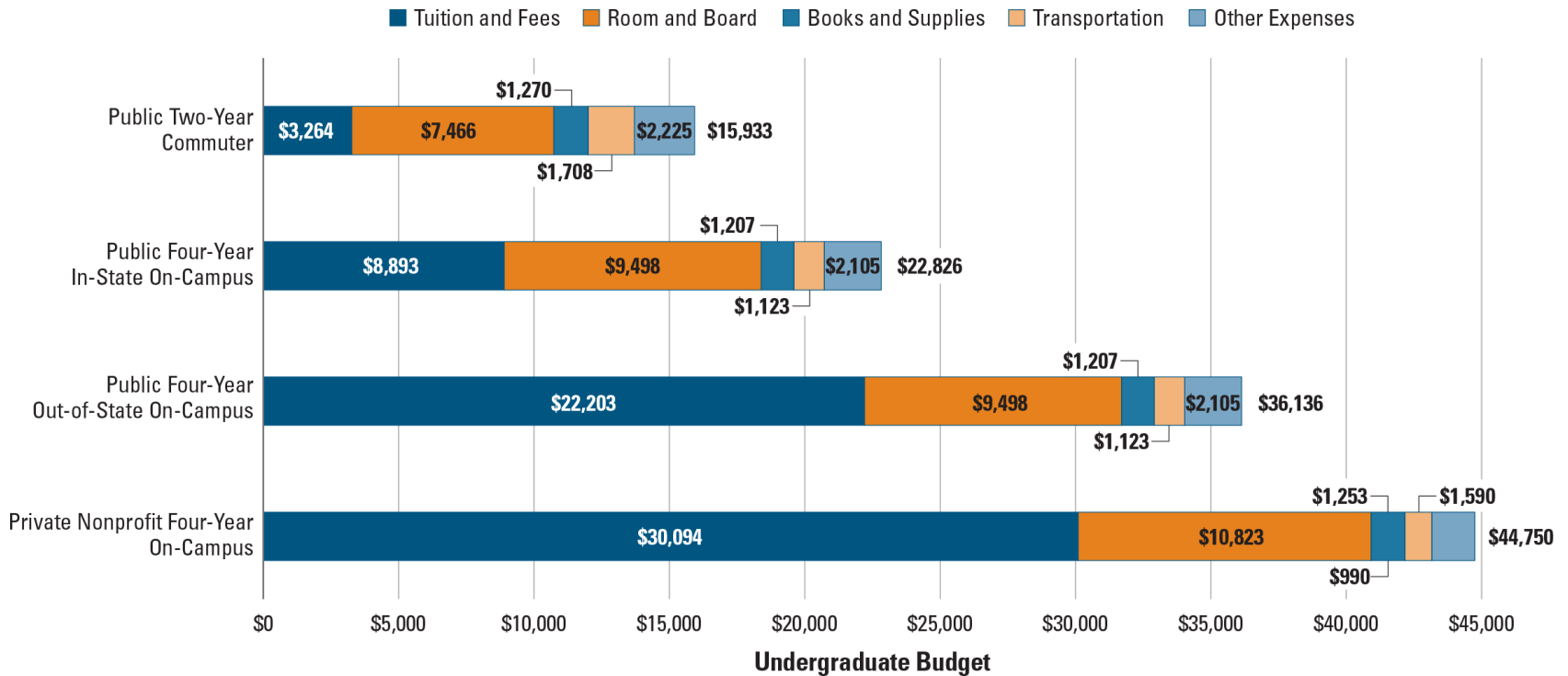
Source: Baum and Ma, College Affordability: What Is It and How Can We Measure It? 2014

## Published and net tuition & fees in 2013 dollars, by sector, 1993-94 to 2013-14

	Public Two-Year		Public Four-Year		Private Nonprofit Four-Year	
	Published TF	Net TF	Published TF	Net TF	Published TF	Net TF
1993-94	\$2,010	\$600	\$4,100	\$2,040	\$17,810	\$10,230
2003-04	\$2,420	-\$420	\$5,900	\$1,920	\$24,070	\$13,600
2013-14	\$3,260	-\$1,550	\$8,890	\$3,120	\$30,090	\$12,460
20-Year \$ Change	\$1,250	-\$2,150	\$4,790	\$1,080	\$12,280	\$2,230
20-Year % Change	62%	-358%	117%	53%	69%	22%

Source: The College Board, *Trends in College Pricing 2013*, online Tables 2, 7, and 8.

# Average Estimated Full-Time Undergraduate Budgets, 2013-14 (Enrollment-Weighted)

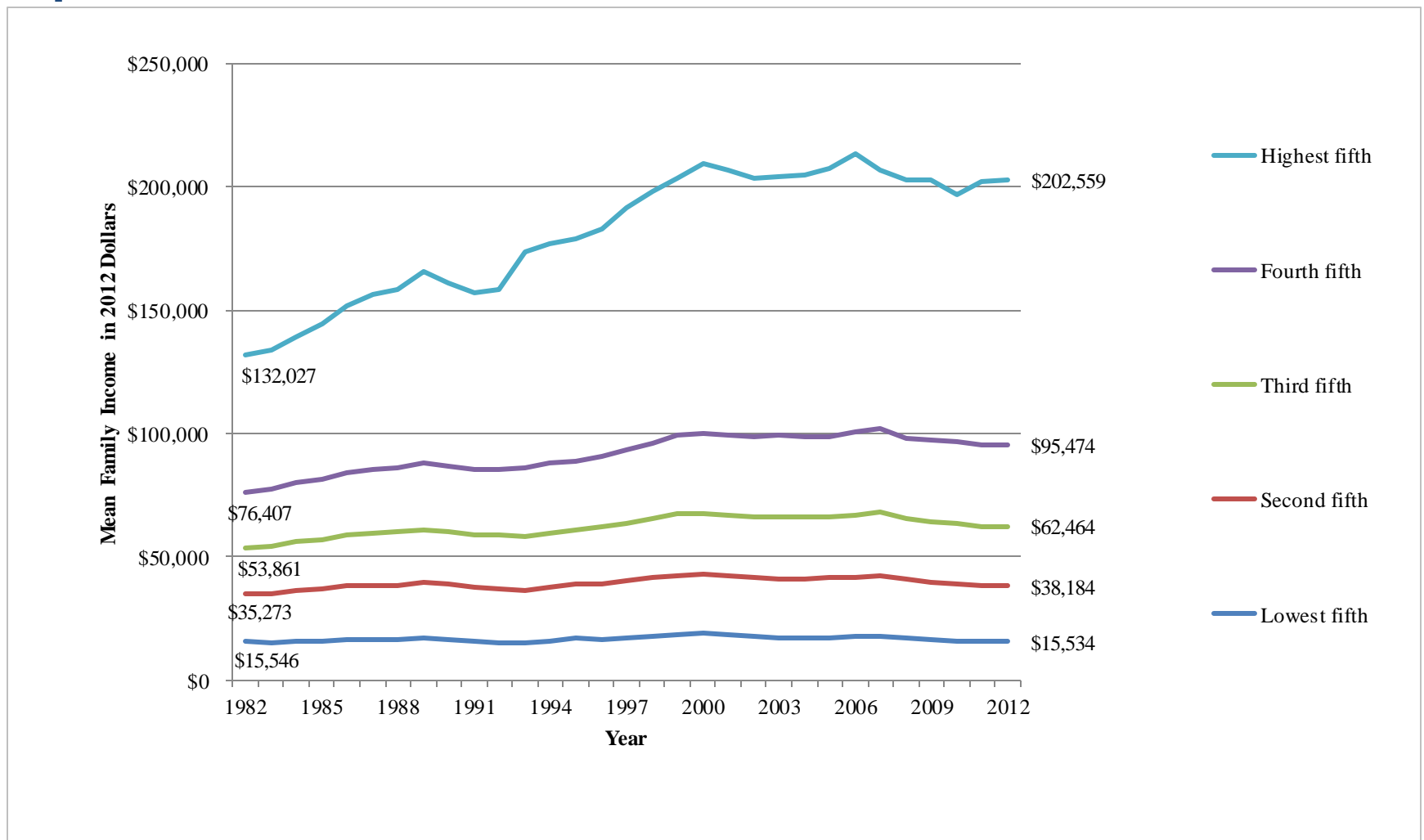


SOURCE: The College Board, *Trends in College Pricing 2013*, Figure 1.

# Available resources

- Parent income and assets
- Student / spouse income and assets
- Multiple sources and forms of student aid
- Future earnings

# Mean family income in 2012 dollars by quintile, 1982–2012



Source: Baum and Ma, 2014



# Monthly loan payment amount by repayment period, interest rate, and loan amount

Loan Amount	10-Year Repayment		15-Year Repayment		20-Year Repayment	
	Interest Rate		Interest Rate		Interest Rate	
	3.40%	6.80%	3.40%	6.80%	3.40%	6.80%
	Monthly Loan Payment					
\$20,000	\$196	\$229	\$142	\$177	\$115	\$152
\$30,000	\$294	\$343	\$212	\$265	\$172	\$228
\$40,000	\$393	\$458	\$283	\$353	\$229	\$304
\$50,000	\$491	\$572	\$354	\$441	\$287	\$380
	Monthly Loan Payment as a Percentage of Monthly College Earnings Premium for All Workers Ages 25 to 34*					
\$20,000	14%	17%	10%	13%	8%	11%
\$30,000	22%	25%	16%	19%	13%	17%
\$40,000	29%	34%	21%	26%	17%	22%
\$50,000	36%	42%	26%	32%	21%	28%

# Understanding affordability

- Can students reasonably expect to increase their long-term standard of living even after paying for college?
- Applies to students not parents
  - Own resources before *and* after college
  - Parental supports
  - Other subsidies

# Not just counting dollars

- Information
- Timing of costs and benefits
- Liquidity
- Uncertainty
- Present bias, default options, reference points, saliency
- Is it worth it?

# Amount of other goods and services that could be purchased for average published tuition and fee price relative to 1993

	1993	2003	2013
College Tuition and Fees	1.0	1.0	1.0
All Items	1.0	1.4	1.9
Information Technology Hardware & Services	1.0	8.5	29.0
New Vehicles	1.0	1.7	2.9
New Vehicles	1.0	1.7	2.9
Food at Home	1.0	1.4	1.9
Child Care & Nursery School	1.0	1.1	1.4
Rent of Primary Residence	1.0	1.3	1.8
Legal Services	1.0	1.1	1.4

Source: Baum and a, 2014

# Monitoring affordability

- Prices (sticker and net)
  - Variation by state, sector, type, etc.
  - Including and excluding living costs
  - Relative to other prices
- Earnings and variation in earnings
- Student debt
- Savings, inequality
- Information, accessibility and processing of information

# State and federal policies

- More money, but not just more money
- Incentive structures:
  - funding and academic progress
  - defining full-time
- Communication strategies
- Mentoring and support systems
- Institutional course and degree structures, guidance, etc.